

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 L-03 EB-11 EURE-00 SSO-00 NSCE-00

USIE-00 PA-03 PRS-01 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 INRE-00

H-03 COME-00 FCSC-01 INT-08 SCS-03 SCA-01 DRC-01 /123 W

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O 051410Z OCT 73

FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC IMMEDIATE 5230

C O N F I D E N T I A L PRAGUE 2389

E.O. 11652: GDS

TAGS: PFOR, EFIN, L/C, CZ

SUBJECT: CLAIMS NEGOTIATIONS

REF: STATE 197245

1. AFTER DISCUSSING POSSIBLE PETER VISIT WITH ZANTOVSKY (PRAGUE 2376) CHARG'E TOOK UP QUESTION OF WHETHER WE SHOULD RECESS TALKS. IN LENGTHY, OPEN, PRIVATE DISCUSSION WHICH FOLLOWED, ZANTOVSKY REPEATEDLY ARGUED THAT TALKS SHOULD CONTINUE, AND STATED CATEGORICALLY THAT DIFFICULTIES WITH MFN LEGISLATION WOULD NOT ABRIDGE CZECH DETERMINATION TO CONCLUDE AGREEMENT.

2. IN SUGGESTING THAT WE MAY HAVE REACHED END OF USEFUL NEGOTIATIONS AT THIS STAGE, CHARG'E SET FORTH SITUATION AS FOLLOWS: (1) LUMP-SUM SETTLEMENT BELOW FORTY PERCENT OF CLAIMS MINUS NINE MILLION FOR STEEL MILL IS NOT NEGOTIABLE; (2) UNBLOCKING OF ACCOUNTS WILL MAKE ABSOLUTELY NO PROVISION FOR ZIVNOSTENSKA BANKA OR UNEXPORTED MACHINERY CLAIMS BY CZECHS; (3) POSSIBILITY EXISTED OF ADJUSTMENT IN MODE OF PAYMENT OF SURPLUS PROPERTY ARREARS, WHICH WOULD HOWEVER, HAVE TO INCLUDE PAYMENT OF BOTH INTEREST AND PRINCIPAL, ANY DRAWDOWN IN CROWNS AT SOME PREFERENTIAL RATE, AND WIDE DISCRETION TO US GOVERNMENT IN USE OF CROWNS; (4) POS-
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SIBLE LIMITED EXTENSION BEYOND FIVE YEARS OF TIME FOR PAYMENT

OF LUMP SUM WITH INCLUSION OF PROVISION FOR INCREASED PAYMENTS RELATED TO HIGHER EXPORTS. EMPHASIZING THAT (1) AND (2) WERE ABSOLUTELY FIRM POSITIONS, AND THAT (3) AND (4) WERE ONLY POSSIBILITIES ON WHICH HE WAS SPECULATING PERSONALLY, CHARG'E ASKED ZANTOVSKY WHY HE THOUGHT THERE WAS BASIS TO CONTINUE NEGOTIATIONS.

3. ZANTOVSKY, REITERATING THAT LEADERSHIP HAS STRONG WISH TO CONCLUDE AGREEMENT IN PRESENT PERIOD, SAID THAT INTERRUPTION WOULD MEAN THAT RESUMPTION "SIX MONTHS LATER" WOULD COME IN LESS FAVORABLE ATMOSPHERE CAUSED BY FAILURE TO HAVE REACHED ACCOMMODATION IN FIRST ROUND. MORE CONCRETELY, HE SAID CZECHS FACE SITUATION, CAUSED BY US POSITION, IN WHICH THEY ARE REQUIRED TO PAY SUM THEY DEEPLY BELIEVE IS EXAGGERATED, WITHOUT AT LEAST SOME ADJUSTMENT ON OUR PART IN OTHER PROVISIONS TO MAKE POSSIBLE AGREEMENT IN WHICH CZECHS ARE NOT OBVIOUSLY "VICTIM" OF NEGOTIATIONS. THUS, WHILE THEY WISH STRONGLY TO CONTINUE TO AGREEMENT, THEY FEEL NEED FOR SOME PALPABLE CHANGE IN US POSITION SO THAT TERMS ARE NOT ENTIRELY BASED ON HARD OPENING US POSITIONS.

4. IN ENSUING DISCUSSION, ZANTOVSKY REACHED POINT WHERE HE MENTIONED \$19.6 MILLION AS POSSIBLE LUMP-SUM PAYMENT (WHICH CHARG'E SAID WAS INSUFFICIENT) IF IN PRESENCE OF IMPROVEMENT IN OTHER PROVISIONS. HE DID NOT COMMENT IN ANY DETAIL ON SURPLUS PROPERTY PAYMENTS, BUT MADE CLEAR IN CONTEXT THAT RELEASE FROM DOLLAR PAYMENT OBLIGATION WAS SORT OF SIGN FROM US SIDE WHICH CZECHS HAD IN MIND. ON PAYMENT TERMS, HE REPEATED THAT CZECHS HAD EXPECTED SAME TWENTY-YEAR TERMS AS WE HAD GRANTED OTHERS, BUT INDICATED THAT SHORTER TIME WITH POSSIBLE TRADE-RELATED AUGMENTATION FEATURE WOULD BE ACCEPTABLE, AS LONG AS AGREEMENT INCLUDED SOME FORM OF PROTECTION AGAINST CONTINUED PAYMENT IN ABSENCE OF MFN. (PAYMENT TERMS WILL BE SUBJECT OF SEPTTEL.)

5. IN SUM, ZANTOVSKY EXPRESSED HOPE THAT WE CAN OFFER IMPROVED TERMS ON SURPLUS PROPERTY AND PAYMENT SCHEDULE. WITHOUT DECLARING CZECHS WOULD PAY \$21 MILLION, HE SIGNALED THAT HE COULD GO TO LEADERSHIP (HE STIPULATED HUSAK AND BILAK AS PERSONALLY INVOLVED) WITH PACKAGE CONTAINING SUCH IMPROVED PRO-
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VISIONS AND EXPECT TO GET AUTHORITY TO CONCLUDE AGREEMENT WITH, HOPEFULLY, SYMBOLIC COMPROMISE IN LUMP-SUM BETWEEN \$19.6 AND \$21 MILLION.

6. WE CAN THINK OF NO WAY TO TEST CZECHS EXCEPT TO OFFER SOME ADJUSTMENT, IF DEPARTMENT AGREES WITH US THIS IS USEFUL AND FINDS IT POSSIBLE. IN ANY CASE, IT SEEMS CLEAR ON ONE HAND THAT POSITIONS ARE FAR CLOSER THAN FORMAL TABLED POSI-

TIONS HAVE INDICATED, AND ON OTHER, THAT CZECHS WILL NOT ACCEPT OUR PRESENT TERMS, IF ALL WE DO IS DROP FROM \$26 TO \$21 MILLION. IF WE HONOR CZECH REQUEST TO CONTINUE, WE FORESEE ONLY FEW SESSIONS LIMITED TO PRESENTATION OF NEW POSITIONS ON SURPLUS PROPERTY AND PAYMENT TERMS IF WE ARE SO INSTRUCTED. ZANTOVSKY HAS ASSURED CHARGE THAT CZECHS WILL STOP ARGUING VALUATION OF US CLAIMS.

7. IF DEPARTMENT CONCURS, WOULD APPRECIATE EARLIEST POSSIBLE INSTRUCTION IN RESPONSE TO PRAGUE 2278 AND 2310 (WITHOUT WHICH NEGOTIATIONS ARE NOW, IN FACT, IN ADJOURNMENT PENDING US CALL FOR NEXT PLENARY).

8. FOLLOWING CONSULTATION IN US DELEGATION, KWIATEK HAS TODAY RETURNED TO WASHINGTON, IN JUDGMENT THAT ANY REMAINING SESSIONS AUTHORIZED BY INSTRUCTIONS WILL BE RELATIVELY STRAIGHTFORWARD, AND IN EMBASSY'S UNDERSTANDING THAT KWIATEK WOULD RETURN FOR DRAFTING SESSIONS IF WE REACH THAT POINT. WORTZEL

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